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# **Accountability in Public Services**

## **Exit, Voice, and Capture**

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Public accountability is strengthened when government control (monitoring and incentive systems) is reinforced by the public's willingness and ability to find alternative sources of supply ("exit") or to exert pressure to perform ("voice") — to balance the phenomenon of "capture" (the tendency of those who manage and control the allocation of public services to seek rents, not serve the public interest).

This paper — a product of the Public Sector Management and Private Sector Development Division, Country Economics Department — is part of a larger effort in PRE to examine the complex issues of governance and public accountability in developing countries. Copies are available free from the World Bank, 1818 H Street NW, Washington DC 20433. Please contact Ernestina Madrona, room N9-061, extension 37496 (54 pages).

Paul argues that public accountability, a major determinant in public performance, is strengthened when the government's hierarchical control (monitoring and incentive systems) is reinforced by the public's willingness and ability to find alternative sources of supply ("exit") or to exert pressure to perform ("voice") — which will depend on the relative costs of these options, what the results might be worth, and the underlying degree of market failure.

The phenomenon of "capture" is the tendency of those who manage and control the allocation of public services to engage in rent-seeking. Capture, together with government monopoly of many public services, the public's limited ability to demand and monitor good performance, and problems in measuring and quantifying the benefits of services, make the improvement of public accountability complex and difficult.

Three things can be done in the medium term to improve public accountability in developing countries:

- Mobilizing public opinion for change by disseminating comparative information about the

performance of public services. Public surveys of client satisfaction, public evaluations of service providers, and comparisons of performance indicators within and across countries may help create a groundswell demand for reform.

- Mustering exit and voice mechanisms to correct the imbalance among stakeholders of public services. In many developing countries, the mandates and behavior of service providers are dominated by their own preferences or the priorities of their supervisors and influential elite groups. The weakest stakeholders are the unorganized public or the poorer sections of society.

- Checking monitoring and incentive systems used by service providers and their supervisors for compatibility with the expectations of the stakeholders — and tradeoffs must be worked off between them. In developing countries, where poverty reduction is a major goal, imbalances must be corrected so there is a shift of services toward the poor, and an improvement in access to and quality of services.

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## EXECUTIVE SUMMARY

This paper develops a conceptual framework to analyze the problem of public service accountability in developing countries and to identify alternative ways to strengthen it. An important proposition derived from this framework is that effective public accountability can be sustained only when government's "hierarchical control" over public service providers is reinforced by the public's willingness and ability to "exit" (alternative sources of supply) or to exert pressure on the providers to perform ("voice"). The design of effective accountability systems in developing countries should be of interest both to their governments and to international agencies such as the World Bank that finance the infrastructure for public services (e.g., transport, water, electricity, health and education).

The theoretical framework presented in the paper shows that in general, the use of exit and voice by the public will depend on their relative costs and on the expected returns to the public from their use in the context of specific public services. The costs and returns associated with exit and voice will in turn be influenced by the degree of market failure underlying the services in question.

The specific factors that influence the use of exit and voice for improving public accountability are several. The relevant service characteristics on the exit side are the presence of economies of scale (monopoly), legal barriers to entry, and spatial barriers to exit. Voice potential is determined by legal, informational and institutional barriers

facing the public, the public's level of income and education (and hence political power), the relative importance of the service to the public, and service differentiability. Some of these are natural barriers and characteristics whereas others are artificial or policy induced. Economies of scale, spatial barriers, the relative importance of services, and differentiability are natural factors. Legal, informational and institutional barriers, and income and education characteristics (to a large extent), are policy induced factors. Public services can be categorized in terms of the exit and voice potential they afford the public by reference to these barriers and characteristics. An analysis of the features and barriers of public services and of the publics involved can be used to predict the potential for the use of exit and voice in specific service contexts. This analysis along with the knowledge of the extent to which such features/barriers are natural or policy induced provide a basis for the design of new mechanisms for public accountability and improved service performance.

A useful approach to the improvement of accountability is to devise ways and means to overcome these barriers or to minimize the adverse effects of these characteristics. Clearly, natural factors are more difficult to overcome than those induced by policy. Exit and voice potential can therefore be more easily realized by first eliminating the policy induced barriers. Minimizing the adverse effects of natural barriers will call for more time, effort and resources. Judged by these criteria, services characterized by weak voice and low exit will be the most difficult to deal with. Natural factors play a dominant role in causing this combination of exit and voice. The implications of this analysis can be seen in the menu of options for improving accountability for services that fall under the

different combinations of exit and voice potential discussed in Section IV of the paper. A menu of options that fits the problems of the different exit-voice combinations is a more useful approach to the improvement of public service accountability than one that offers a standard answer for all situations. The set of propositions summarized below can be a guide to the choice of options:

1. When a public service operates as a local monopoly due to spatial barriers and the public involved is characterized by low incomes and legal, informational and institutional barriers, improved accountability is achieved through the use of voice.

2. Under the conditions stated above, the use of voice by the public is likely to be stimulated or assisted by the intervention of agents/organizations outside of the local community ( e.g., NGOs ).

3. When a public service is characterized by large economies of scale and/legal barriers to entry, and its differentiation is difficult while the public involved or a segment of it is not constrained by low incomes and limited information, voice will tend to be used to improve public accountability.

4. The use of voice under these conditions is likely to be initiated by the public and not through the mediation of external agents.

5. When a public service can be differentiated, but is not constrained by economies of scale in its production and the public involved

faces income, informational and institutional barriers, improved accountability is achieved through the use of exit.

The phenomenon of capture--the tendency of those who manage and control the allocation of public services to engage in rent seeking--is an important barrier to the improvement of accountability in developing countries. Capture, along with government monopoly of many public services, the limited capacity of the public to demand and monitor good performance, and the problems in measuring and quantifying the benefits of services, make the improvement of public service accountability an especially complex and difficult undertaking.

What can be done to enhance public service accountability in developing countries in the medium term? First of all, even when the phenomenon of capture or other problems severely limit the scope for significant reform, there is a case for mobilizing public opinion for change through the dissemination of comparative information on the performance of public services. Public surveys of client satisfaction, public evaluations of service providers, comparative analysis of performance indicators within countries and across countries can be used to lay the foundation for a groundswell in favor of reform.

Second, there is a need to correct the imbalance that has developed among the stakeholders of public services. In many developing countries, the mandates and behavior of service providers are dominated by their own preferences or the priorities of their supervisors and influential elite groups. The weakest stakeholder is the public or its segments who do

not have an adequate "voice" for the reasons discussed in this paper. It is important to examine the kinds of exit and voice mechanisms that can be mustered to correct this imbalance.

Third, the hierarchical control mechanisms being used by service providers and their supervisors (monitoring and incentive systems) must be checked for their compatibility with the expectations of the stakeholders and the trade offs that have been worked out between them. The spectrum of performance dimensions (inputs, access and quality) discussed in the paper provides a useful basis for this check. In developing countries where poverty reduction is a major goal, correcting the imbalance among stakeholders in favor of the poor and towards access and quality as performance dimensions merit special attention.



## ACCOUNTABILITY IN PUBLIC SERVICES

### EXIT, VOICE AND CAPTURE

#### I. INTRODUCTION

Recent years have witnessed a growing dissatisfaction with the performance of public sector services in many developing countries. Several factors have contributed to this phenomenon. The unprecedented expansion of the public sector to provide services which are regarded as essential to the public (public and quasi-public goods), growing interventions by the state to regulate economic activities for externality and equity reasons, and the overstretching of governmental administrative capacity and resources in the process, are the most important and frequently cited among these factors. Developed countries have also faced similar problems with public services, though unlike most developing countries, more of them have addressed these problems and in several cases have found interesting and innovative solutions to improve public service accountability (Jabbra and Dwivedi 89; OECD 87; Heald 89; Eaves 90). The economic and financial crisis that gripped the developing world in the 1980s, on the other hand, shifted the focus of governments and donors to the containment of this crisis. While this shift has led to concerted efforts to reduce public sector size, improvement of the efficiency and effectiveness of public services has remained a neglected area. Refocussing attention on this task with special reference to the services that directly affect the public is long overdue.<sup>1</sup>

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<sup>1</sup> Government's output can be divided into two categories of goods and services: (1) intermediate goods and services, which though of some interest to the public, are essentially inputs for the production of other goods and services to be delivered to the public; (2) final goods and services which the public or segments of the public receive. Examples of the first are public

Public accountability refers to the spectrum of approaches, mechanisms and practices used by the stakeholders concerned with public services to ensure a desired level and type of performance. It thus covers not only the policies underlying accountability, but also the institutional system that operates in a country to motivate service providers (agents) to deliver the desired type and level of performance. Accountability provides a test of the consistency between public policy and service provision. Its effectiveness will depend on whether influence of the concerned stakeholders is reflected in the monitoring and incentive systems of service providers.<sup>2</sup> When the latter are seen to monitor performance measures consistent with public policy and are motivated to pursue the attainment of public welfare, an effective public accountability system can be expected to exist.

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sector recruitment, investment plans, accounting and budgetary services, etc., that entail inter-agency transactions within governments. Examples of the second are self evident and numerous. They include a wide range of goods and services, economic, social, and regulatory, that public agencies deliver to citizens free or at a price. The primary concern of this paper is with government's final goods and services.

<sup>2</sup> Public accountability involves three groups of inter-related stakeholders. The public and the customers of the service (often a subset of the public at large) are stakeholders interested in service providers being accountable to them for attributes that benefit them most. Political leaders and bureaucratic supervisors of service providers are stakeholders who would like the latter to be accountable to them for a mix of public policy and possibly private or parochial goals that interest them. It is the pursuit of private goals by these stakeholders that results in rent seeking activities (Buchanan, et.al., 1980; Olsen, 1985). Service providers themselves constitute a third category of stakeholders with objectives and interests often different from those of the first two. The public accountability system that finally emerges tends to reflect the relative bargaining power of the different sets of stakeholders involved. Whether public policy goals will be neglected to facilitate rent-seeking activities, for example, will depend on who dominates the bargaining process and what their interests are.

A government's performance in respect of public services can be unsatisfactory for a variety of reasons: (1) Governments often have a monopoly of certain services, leaving little incentive for public officials to be efficient. Public servants may consider themselves accountable to the public or society at large in an abstract sense, but may not feel accountable to those to whom they provide specific services. Compensation of public servants typically does not depend on their efficiency or responsiveness to the public. (2) In many developing countries, the public/beneficiaries do not have the ability or incentive to demand efficient services or to insist on greater public accountability. It is also possible that some segments of the public (special interest groups) may capture an undue share of the benefits at the expense of weaker sections (Niskanen 71; Tullock 65; Becker 83). Lack of political power, information gaps and a variety of institutional factors have facilitated this tendency. (3) The nature of some public services is such that measurement and quantification of their benefits are not easy.<sup>3</sup> This further complicates public accountability which has traditionally focused on the internal means of supervision and control (hierarchical control) in public agencies. Since public services tend to vary in all these respects, there is no simple or unique answer to the complex issue of public sector accountability. The three sources of poor performance referred to above clearly show that any solution to the accountability problem must take into account the nature of the services involved as well as the characteristics of the relevant publics.

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<sup>3</sup> This is not to deny that measurement and quantification cannot or should not be improved. The term "specificity" has been used to describe this feature and also to link it to the nature of technology involved. See Arturo Israel, Institutional Development, Johns Hopkins Press, Baltimore, 1987.

The purpose of this paper is to develop a conceptual framework to analyze the problem of public service accountability and to identify alternative ways to strengthen it. The central argument of the paper is that public service accountability can be sustained only when "hierarchical control" over service providers or agents is reinforced by the public's willingness and ability to "exit" (alternative sources of supply) or to exert pressure on agents to perform ("voice"). An important finding is, however, that the phenomenon of "capture," described in a later section, is likely to be a binding constraint on public accountability in many developing countries, and a challenge to the conventional wisdom about the factors that limit accountability as summarized in the preceding paragraph. As a backdrop to the analysis, the practice of public accountability is examined from a historical perspective in Section II. A conceptual framework for analyzing the determinants of accountability is presented in Section III. Drawing upon this framework, a menu of options for improving accountability is then proposed in Section IV. Section V examines the phenomenon of "capture" as a barrier to change, and its implications for public service accountability. The conclusions of the paper are summarized in Section VI.

## II. ACCOUNTABILITY: A HISTORICAL PERSPECTIVE

Governments have, in general, considered public accountability as an essential prerequisite for the efficient production and delivery of public services. Public service performance is, however, a complex phenomenon that depends on a variety of factors. (1) Public policies governing a service tend to influence the financial resources, technology and organizational resources available to the service provider. (2) The characteristics of the public and its environment tend to affect service outcomes. The income and education levels of the public to be served, the size of the public and its heterogeneity, configuration of its values and norms of behavior, and the difficulties in reaching the public will influence outcomes. (3) Government control over the service provider is a third variable affecting outcomes. The bargaining power of the stakeholders interacting under government auspices and government's internal control systems are key components of this factor. While improving the efficiency of specific public services usually calls for actions on many fronts, the central issue that is common to all such services is the question of how governments and their service providers can be made more accountable to the public for their performance. As implied in the following definition, accountability is the driving force that generates the pressure for the key actors involved to be responsible for and to ensure good public service performance.

"At its most elementary, public accountability simply requires that public bodies give an account of their activities to other people and provide a justification for what has been done in terms of other people's values, in a way that private bodies do not." (Stanley and Smith 76)

The prevailing concepts and practices of public accountability can be traced to a wide range of developments in economics, political science, public administration and law. Public finance and, in particular, developments in cost-benefit analysis and performance measurement have had a major impact on the information being sought for public accountability at the macro and micro level (Feldstein 85; Premchand 83; Bos 86). Recent developments in public choice theory and the New Institutional Economics (NIE) are also germane to the issue of public accountability.

Public choice theory does not consider the state and its agents as neutral bystanders in group interaction. This has given rise to the positive theory of rent seeking which is concerned with the means used by interest groups in getting what they want (Buchanan 80; Bruenan and Buchanan 85; Olsen 65 and 85). Given the bureaucracy's rent seeking tendency, the theory advocates a minimalist state and reduction in the size of the bureaucracy. A branch of public choice theory, the collective action literature, specifies the conditions under which groups of people tend to get organized to ensure the accountability of public service providers. NIE, on the other hand, focuses on the role of transaction costs, contracts and incentives as the route to greater accountability and performance. The approach here is to enhance accountability by solving the principal-agent problem. Implicit here is the assumption that incentives can be designed to make hierarchical control work. Much of this work is concerned with the behavior of the firm. Whether the approach to the resolution of the agency problem proposed in the NIE is relevant to the public services discussed in this paper is not entirely clear.

Those who work in this field do recognize that problems of incentives and governance are enormously difficult in the political or public sector context (Williamson 85).

The concept and practice of public accountability have been greatly influenced by political theories and the professions of public administration and law (Jabbara and Dwivedi 89; Schuck 83). They have evolved in the more developed, western countries in parallel with their socio-political evolution. (1) Democratic accountability was the starting point for many countries in the course of the last century. This represents a mix of political and administrative accountability. The government (ministries, the bureaucracy and its constituent parts) in this system is accountable to the political leadership (elected or otherwise) of the country for its actions and performance. Ministers, for example, are accountable to the parliament/legislature in democratic countries. Civil servants in turn are accountable to their ministers. Accountability here is seen as a macro level concept as it is difficult for a minister or legislature to supervise or control the individual acts of all civil servants and their departments.<sup>4</sup> Furthermore, it does not distinguish between government's intermediate and final goods and services. The instruments of macro level accountability include legislative reviews of ministry activities, periodic audit reports on public expenditure, and the practice of questioning ministers in parliament on ongoing government activities. Political leaders/legislatures act as surrogates for the public in the system of democratic accountability.

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<sup>4</sup> The term "macro level" is being used here only to distinguish it from "micro level" accountability which pertains to specific public services. Democratic accountability is applicable not only at the national level, but also at the local level. The focus is on the totality of a political unit.

(2) The expansion of public services which required technical expertise in their production and delivery subsequently led to the practice of professional accountability in the public sector. The experts (doctors, engineers and other specialists) involved in these tasks are guided by their professional norms in being accountable for the services they provide. They exert considerable autonomy in defining the public interest, on the basis of professional norms, and in deciding on the nature and content of the services. The criteria of accountability here are heavily influenced by the norms internally (from the supply side) agreed upon by professionals acting on behalf of the public. This type of accountability at the micro-level has much broader application in the context of specific services than is true of the concept of democratic accountability discussed above. It did not supplant democratic accountability, but acted additively and as a response to the increasing complexity of public services.

(3) In recent years, judicial systems and specially devised laws in some countries have been used to augment the accountability of individual civil servants and units within government who are responsible for the production and delivery of public services. The growing interactions of the public with the bureaucracy, and the dysfunctional impacts of secrecy and anonymity within government on the efficiency and effectiveness of services have contributed much to the emergence of the legal accountability concept (Smookler 89). By and large, its practice is confined to the more developed countries with an educated public and a democratic political system. Its evolution is associated with the public's right to seek information from government, the right to sue individual civil servants and public agencies in



law courts and the power of courts to make the latter financially liable for violations of the public interest.

This pattern of the historical evolution of public accountability reveals three interesting features. (1) The original thrust of government accountability to the public rested with the political leadership at the macro level. Attention to accountability as a means of controlling the behavior of individual civil servants for public services is a relatively recent development. (2) The focus of the key instruments and measures used to effect public accountability has traditionally been on inputs and not on outputs. In most cases, the latter tend to be diverse and too complex to measure and to aggregate though in recent years there has been some progress on this front. On the other hand, public expenditure which is an input and a common denominator can be easily measured and audited. Internal processes can be assessed as there are generally uniform norms about their use within government (e.g., the sequences and procedures to be followed for decisionmaking and implementation of decisions). (3) Except for legal accountability, a recent development, the primary concern of the concept of accountability has been on internal means of control. Political leaders, agencies and bureaucrats act as proxies for the public and hold those reporting to them accountable through control systems within the relevant organizations. Legal accountability introduces, however, the concept of the public intervening directly to ensure accountability. The dominant pattern has thus been one of vertical or "upward" accountability and not of "outward"

accountability.<sup>5</sup> The key missing element here is the view of the public as "customers" to be served.

### III. DETERMINANTS OF ACCOUNTABILITY: A CONCEPTUAL FRAMEWORK

Accountability for public services has traditionally been viewed from the supply side (the standpoint of the suppliers of services) as is clear from the following quote:

"Accountable management means holding individuals and units responsible for performance measured as objectively as possible. Its achievement depends upon identifying or establishing accountable units within government departments-units where output can be measured against costs or other criteria, and where individuals can be held personally responsible for their performance." (Fulton Committee 68)

This is a view of public accountability through "hierarchical control" (HC) . There are two supply side factors which have received considerable attention in the literature, namely, the design of services and the incentive structure governing suppliers. The supply side argument is that accountability can be augmented by improving the design of the service and by ensuring adequate incentives for the supplier both to design and to deliver the service. If actions are taken on these fronts, it is assumed that public services will improve and that accountability to the public will be enhanced.

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<sup>5</sup> "Upward" refers to the hierarchical approach to control and "outward" to the accountability towards the public, a horizontal relationship. An exception is professional accountability where the behavioral norm departs from hierarchical control. See page 7.

This approach is valid, however, only when the problem of principal-agent relations within public agencies can be readily solved. When multiple principals with conflicting objectives exist (political actors, the public, and bureaucratic supervisors in this case), and opportunism and market imperfections prevail (information asymmetries, monopoly conditions), the scope for collusion increases, and the agency problem remains unresolved (Tirole 86; Levy 87; Fama and Jensen 83). Under these conditions, it cannot be assumed that an accountability system based on HC will serve the interests of the relevant stakeholders. Alternatively, HC might approximate true public accountability for some time (e.g., when good leaders are in charge or soon after a public revolt), but might not be sustained. According to a recent assessment,

"there is ample evidence that it is exceptionally difficult to devise and then sustain control frameworks: the sponsorship function from (sponsoring and finance) ministries to enterprise is a very problematical one, not least in terms of objectives, loyalties and timescales. Outcomes can depend heavily upon the personalities involved and on the wider cultural and political context. Moreover, the difference between developed and developing countries should be fully recognized, especially when discussing the viability of public enterprise reform strategies or options for privatization." (Heald 89)

In most developing countries, the casualty in the conflicts between the stakeholders in public accountability is the public's viewpoint (IRAS 89; Dubashi 90). The directional change required in the reform of accountability systems for public services lies in integrating this element into the HC approach.

### Determinants of Accountability

Viewed from the standpoint of the public, there are two basic factors that influence accountability. One is the extent to which the public has access to alternative suppliers of a given public service. The question here is whether there is potential or scope for the public to exit when dissatisfied with a public service. The second is the degree to which they can influence the final outcome of a service through some form of participation or articulation of protest/feedback irrespective of whether the exit option exists. In other words, can they exert their voice in order to enhance accountability? Exit and voice are terms that Albert Hirschman (1970) made popular in his excellent discussion of the ways in which consumers cope with the problem of performance deterioration in the production of goods and services.<sup>6</sup> He treats exit as an economic response mechanism and voice as a political response mechanism. The former is ubiquitous in the competitive market place whereas the latter is found more often in organizations such as political parties and voluntary agencies.<sup>7</sup>

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<sup>6</sup> Exit and voice options can be both substitutes and complements to each other depending on certain underlying conditions which Hirschman develops in his book. He further notes that the cost of voice could be higher than that of exit in view of the need for collective action and the risk of the less certain outcomes of voice. While Hirschman recognizes the relevance of these options to both private and public sectors, he focusses almost exclusively on the world of private goods where both options are readily available. Furthermore, he does not examine the issue of the relevance and design of institutional devices or arrangements for facilitating the use of exit and voice in varying contexts and the conditions under which they will be optimal.

<sup>7</sup> This generalization must be qualified in part. In politics, forms of exit do exist (leaving a party). While in the market, the use of voice is not unknown (a public demonstration).

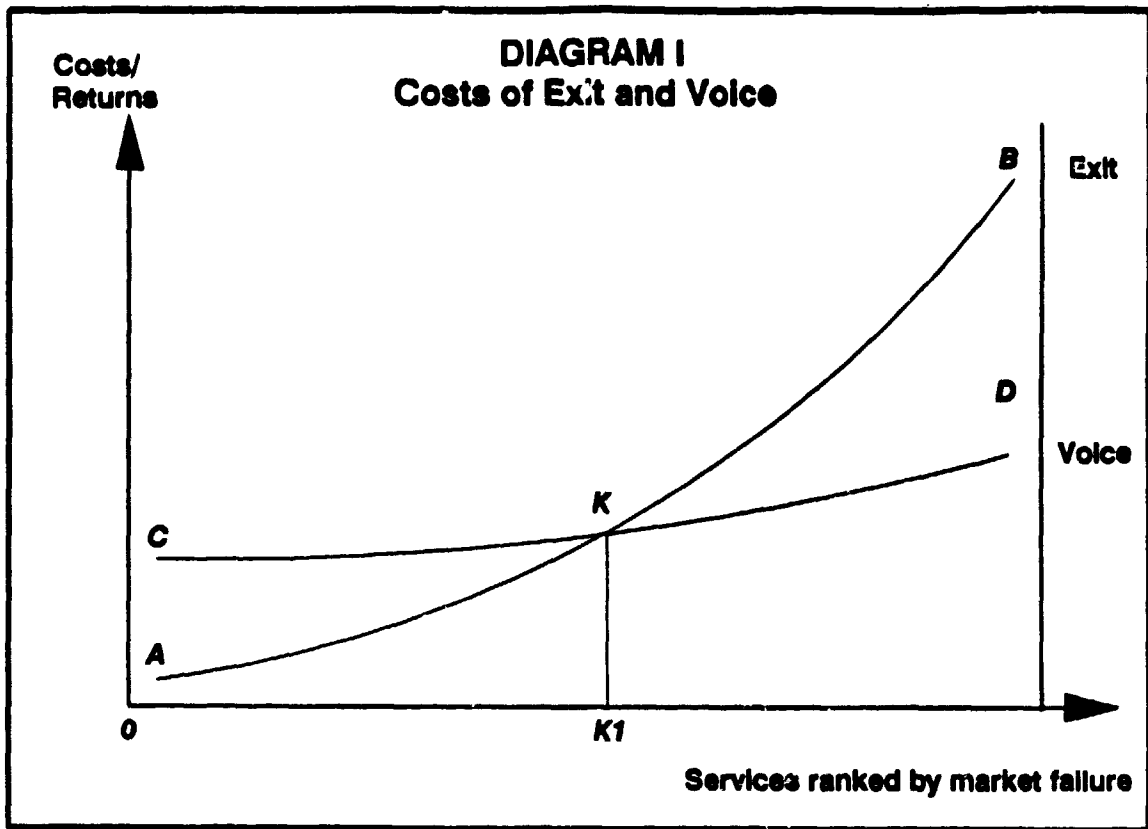
The analytical framework presented below builds on Hirschman's concept of exit and voice, but with an exclusive focus on public services. Two interrelated questions will be explored here. Under what conditions are the exit and voice options likely to be efficient in enhancing accountability in public services? How and why do public services differ in their amenability to the use of exit and voice as a means to improve their performance? Answers to these questions are essential for designing better approaches to public service accountability.

Diagram I below provides a simple, but generalized answer to the first question. The public's decision to use exit, voice or a combination of both will depend on two factors, namely, the expected returns resulting from improved accountability (e.g., better quality, reduction in delays and corruption, responsiveness or other attributes that the public value, etc.), and the costs associated with the use of exit and voice. The relative costs of exit and voice and their levels may vary depending on the degree of market failure affecting the services.<sup>8</sup> Market failure here is treated as external to the service provider and is caused by externalities, decreasing costs (e.g., natural monopoly) and informational asymmetries. In Diagram I, costs and returns are measured vertically while public services are ranked horizontally according to the increasing intensity of market failure.<sup>9</sup>

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<sup>8</sup> The level of voice costs will be affected also by the prevailing socio-political environment. For example, a free press, dissemination of information, legal rights, etc. will reduce costs for the individual.

<sup>9</sup> Note that services here differ only in respect of the degree of market failure. Strictly speaking, only one type of market failure should be considered at a time along the Y axis (e.g., natural monopoly). Needless to say, these are highly restrictive assumptions.



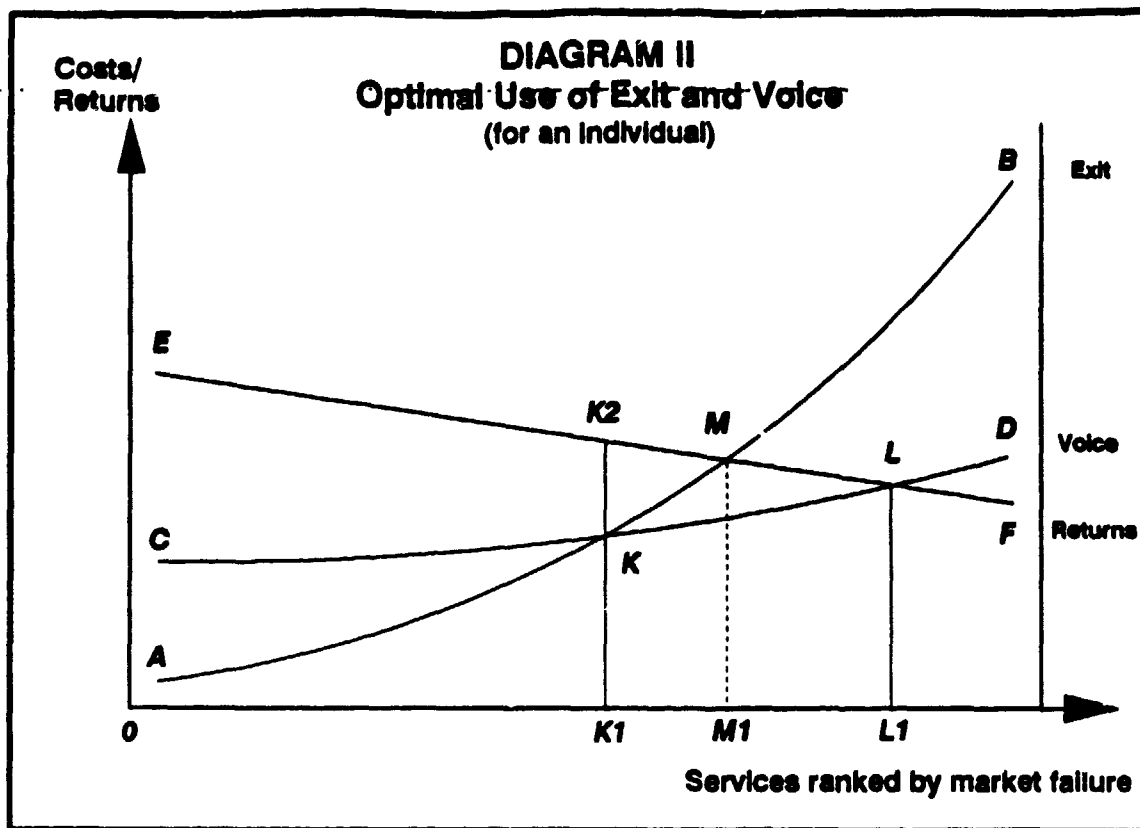
Assume that the public is willing to use exit and voice in order to improve public accountability. AB represents the cost of exit associated with each of the services on the horizontal axis and incurred by an individual (a member of the public). CD is the cost of voice estimated on a similar basis. Although the cost of voice is often incurred in a group, each point on the curve could be treated as the individual's cost of voice. As expected, for the public, voice costs more than exit for the range of services facing competition, but as market failure increases, exit becomes more costly than

voice. The cost of exit is clearly more sensitive to market failure than the cost of voice. For example, the cost of creating an alternative (exit) in the face of a natural monopoly will be enormous. The cost of organizing the public to seek changes from the monopoly (voice) will also be substantial. But even the cost of voice tends to go up as the information asymmetries associated with market failure increases along the Y axis. Diagram I shows that the public services within the range of OK will find the use of exit more efficient for improving accountability whereas the services to the right of K will find voice more efficient. When city transport services permit both public and private options, the public will tend to use exit, while faced with urban water supply problems the public is more likely to resort to voice.

Diagram II introduces the concept of the expected value or returns from performance improvement to the public that improved accountability can bring about. EF represents the expected returns to the individual of such performance improvement. Its declining slope signifies the increasing difficulty in improving accountability as market failure increases. A monopoly, for example, is expected to be less responsive to public pressure. Upward shift in the expected returns curve can occur, however, when supervision or incentives are strengthened to make the service provider more responsive.<sup>10</sup>

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<sup>10</sup> Returns are the monetary equivalent of the gains from improved accountability that the individual receives as a result of the use of exit or voice. The upward shift is treated here as an autonomous step, but need not always be so.



Given the exit and voice cost curves, Diagram II shows that the combinations of exit and voice that are efficient for different goods will vary depending on the level and slope of the expected return curves. Thus when EF applies, both exit and voice yield net returns along the range of OK1. Nevertheless, exit is clearly the more efficient option. Within the K1M1 range of services, voice is the superior option though up to M, exit continues to yield net returns. For services beyond OL1, neither exit nor voice seem efficient solutions though an upward shift in the returns curve can reduce



their number. Public services can thus be partitioned into three categories by reference to the net returns to performance improvement generated by the use of exit and voice.

Four propositions follow from this simple diagrammatic presentation. (1) Exit is more efficient, and hence more likely to be used in services least affected by market failure whereas voice is relatively more efficient as market failure increases. (2) For many services, either option or a combination of the two will still leave some net returns and therefore the choice may depend also on the preferences of the public for different combinations. (3) The level of expected returns has a direct bearing on the extent to which voice will be deployed especially in the range of services most affected by market failure. In other words, the public is likely to use voice only when there is a high probability that the public sector will be responsive and make this investment worthwhile. (4) There are some public services for which the use of neither exit nor voice mechanisms will be efficient. If an upward shift in the returns curve occurs, a decline in their number will follow. These are the services most affected by market failure.

We shall now move on to the second question and explore the variables that influence the scope for exit and voice in the context of different types of public services. This will take us beyond the aggregative approach of Diagram II which considered services solely as a function of market failure and the public as an undifferentiated lot. Further disaggregation will provide a useful basis for designing improved approaches to accountability.

### Exit Determinants

(1) Economies of scale are important in the production of many public and quasi-public goods. Natural monopolies with increasing returns to scale are well known examples. In a country or a geographical area where there is scope for only one enterprise or agency to produce and deliver a service, the public's potential for exit is limited or non-existent, and hence exit cost is high.

(2) Legal barriers to entry may exist in a country which limits the public's scope for exit. Registration of vehicles and trade controls can be viewed as legal barriers which the public cannot escape unless illegal action is resorted to. This is because the state prohibits by law other suppliers from delivering a given public service though there is technically no reason why others cannot supply the same service. In many countries, barriers to entry in sectors such as road and air transport and education illustrate this point.

(3) Spatial barriers may limit the potential for exit for some segments of the public. Here the problem lies not in the nature of the good or service but in the characteristics of the public. Thus there may be scope for only one small school or health clinic in an isolated village. The constraint is not the existence of scale economies, but rather that certain features of the public (e.g., location) limit their potential exit. However, the effect on the service (as when scale economies exist) is that it operates like a local monopoly. Migration by people facing poor performance, of course, is a form of exit, but a costly one under these circumstances.

(4) Where the nature of a good or service is such that no member of the public can be excluded from access to it, then exit by definition is ruled out. Pure public goods such as defense or environmental protection are classic examples.

### Voice Determinants

(1) Legal and institutional barriers to voice may exist in a country thus making it difficult for segments of the public to use their voice. In some cases, this could be traced to the nature of the larger political system or ideology. Even where an open or democratic political system exists in a country, its laws and legal and institutional devices may not permit or may constrain the use of voice (e.g., legal barriers to the recognition of user groups, lack of public hearings and denial of the right to sue public service suppliers). It is possible that nothing is wrong with the laws, but the procedures and practices used in their implementation stifle or delay the use of voice (e.g., procedures used by courts, access made difficult through the location of facilities).

(2) Informational asymmetries can be a severe constraint on the public's use of voice. Service providers often possess information that is not available to the public. Governments may restrict the public's access to information or limit the scope for the media to challenge or publicize the poor quality and other attributes of services. Dissemination of information may also be limited by the poor technologies available in the country. Inadequate telecommunications and TV facilities illustrates this problem.

Those who have privileged access to the relevant information on services such as elite groups may take advantage of it at the expense of other segments of the public. The net result is that for ordinary people, the transaction costs of voice will be very high.

(3) Non-differentiation of public services can aid the use of voice under certain conditions.<sup>11</sup> A quasi public good such as drinking water and public parks are non-differentiable products. Since all segments of the public have an interest in their supply and quality, those with a weak voice also gain from the voice of the stronger segments of the public (Wade 1988). Non-differentiation of services thus creates an "externality" effect on voice. In the case of education, for example, it is possible to differentiate services (schools with varying quality), and hence the externality effect does not obtain.

(4) Income, education and related attributes of the public increase their ability to use voice. Even when information is available, lack of education may limit its proper analysis and use by the people. The cost of voice can be too burdensome for low income people. Lack of knowledge and skills constrains them in their assessment of options and in demanding better service or access. The poor and illiterate, therefore, are usually the weakest in respect of voice, though their numbers may be large.

(5) The relative importance of a service to the public also influences voice. Thus if a person spends a significant proportion of his

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<sup>11</sup> This term refers to the concept of "product differentiation" frequently used in studies of industrial organization and marketing.

income or time on a service, or develops a continuing relationship with the service provider ("product involvement"), his incentive to use voice is greater than when the service is of little consequence or is not durable in terms of future relationships or benefits.<sup>12</sup> This is true even when the individual has an exit option. Examples are housing and health services (doctor-client relations). In health care, there is a clear information asymmetry between doctors and patients. The latter depend on the advice and expertise of the doctors they trust. Exit will, therefore, be a last resort and is likely to be preceded by the use of voice.

The foregoing discussion of the factors underlying exit and voice shows that both the nature of the good or service and the characteristics of the public exert an important influence on these options. Natural or artificial (policy induced) monopoly turns out to be an important attribute of many public services (e.g., electricity, regulatory services) that tends to limit the public's scope for exit. The ability and willingness of the public to respond to this condition through voice can in part be policy induced, but are also a function of certain attributes of the public (e.g., income, education, location, etc.). In the final analysis, the factors identified above influence the costs facing the public and thus their choices between the two options. For example, if spatial barriers are high for a person, the cost of taking the exit route is likely to be substantial for him. Hence he is likely to explore the voice option first before resorting to exit. On the other hand, where spatial barriers are low or when a service is relatively unimportant to an individual, he may find the cost of voice to be higher

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<sup>12</sup> Product involvement is a term used in the field of marketing, and is a proxy for the relative importance of goods to consumers.

relative to that of exit. Thus the public may face high or low natural or policy induced barriers with respect to exit or voice or both. Public services can be categorized by the severity of these barriers and characteristics.

### Combinations of Exit and Voice

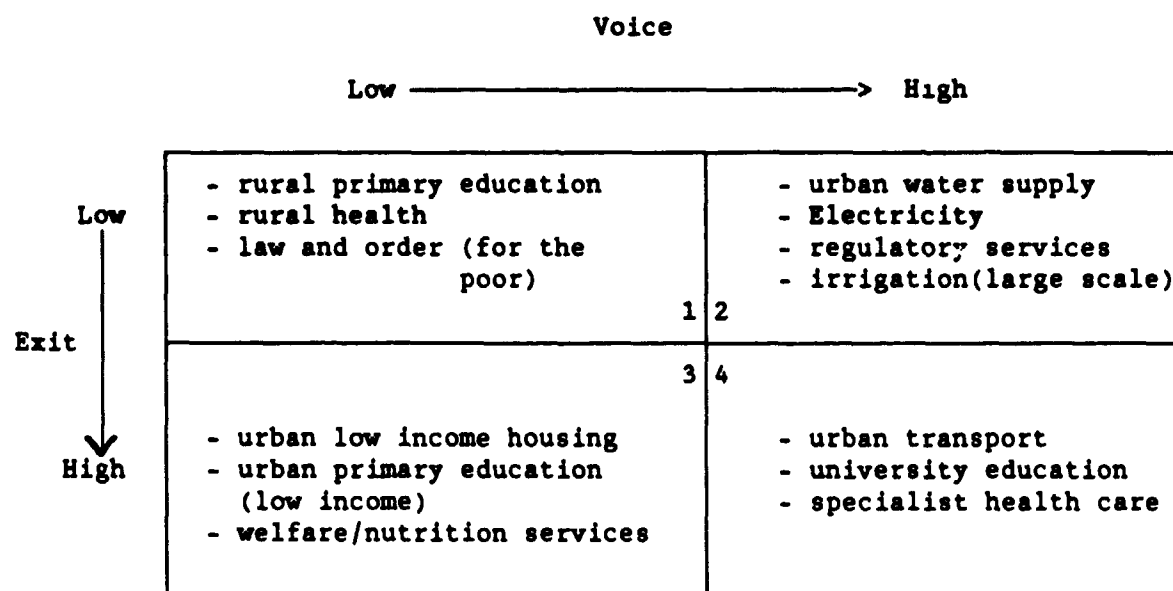
Public services are categorized below into different groups according to the criteria of exit and voice. First, services can be classified according to whether there is scope for the public to exit if dissatisfied with what they get. This is a proxy measure for the feasibility of competition in the production and delivery of services. Second, public services differ in the degree to which their beneficiaries can make their voices heard if dissatisfied with the outcomes. For analytical purposes, Diagram III depicts four different combinations of exit and voice that provide a useful basis for the classification of public services. These should not, however, be treated as watertight divisions. As the vertical and horizontal arrows imply, they reflect degrees of actual or potential possibilities for the use of exit and voice. Examples of public services that fit the different combinations of exit and voice are given in Diagram IV.

Cell 1 above represents public services that fit the low exit-weak voice combination. The nature of the services in this category is such that exit will be extremely difficult or costly for the public. At the same time, the beneficiaries involved are disadvantaged in the sense of being either poor or illiterate or both. Hence their weak voice. They have limited capacity to use voice if dissatisfied with the services. This can be



exit option may not be open to them as the next school may be located in a far away place. Distance and not scale economies is the source of the monopoly condition present in this case. Furthermore, the public in this cell do not offer any scope for product differentiation. Health services, agricultural extension, rural water supply and regulatory services affecting the poor (e.g., licensing of vendors) are other examples of services which belong to Cell 1.

DIAGRAM IV



A combination of low exit and strong voice characterize Cell 2. Here again, exit for those dissatisfied with a service is impossible or expensive, but the scope for voice is considerable. Scale economies matter a great deal in the production and delivery of services in this cell. Natural monopolies owned or regulated by government illustrate the problem. Voice can



be strong here for two reasons. Given the nature of the services, product differentiation is not possible or is extremely difficult to design with the result that the entire public gets more or less the same quality and type of service. Even if only a segment of the concerned public is capable of exerting voice, everyone stands to benefit from such action due to the externality effect explained above. Utilities such as electricity, telecommunications, urban water supply, and irrigation are examples of services in this cell. Regulatory services affecting publics with a strong voice also belong to Cell 2 (e.g., industrial licensing, foreign trade regulation, etc.). The public here is capable of using voice on its own initiative. Organized groups of producers and consumers with strong interest in service outcomes are found in these sectors at least in some countries.

If service characteristics such as product differentiation are in fact present in a service in Cell 2, the expected positive externality effect on the use of voice is unlikely to emerge. Thus when there is scope for product differentiation in a service, externalities enjoyed by the weaker segment of the public (low voice) will tend to disappear and the use of voice by the stronger segment will not improve accountability for all. Under conditions of extreme inequality, this may be the case in irrigation, for example, where large farmers could use voice to get a disproportionate share of water at the cost of smaller farmers. Similarly, in the case of electricity, the basic product cannot be easily differentiated, but the related elements of repair and maintenance can be differentiated between different segments of the public. Improved accountability here would still require the use of voice, but possibly with some external assistance for the weaker segment.

Cell 3 depicts services with a high exit-weak voice combination. As in Cell 1, the services here are not sensitive to scale economies. This means that in a given geographical area like a city, several units can efficiently produce and deliver the services. When performance deteriorates, this will enable the public to exit provided multiple service providers exist. At the upper end of the spectrum in Cell 3, the scope for exit may be reduced through policy induced legal barriers to entry.<sup>13</sup> Thus a government may permit education only under public auspices although voluntary agencies or private entities could provide this service. Product differentiation, however, is feasible in these services, thus making it possible for those with strong voice to opt for the quality they prefer. This tendency separates the segment of the public with weak voice from the former. Even if product differentiation is not present, policy induced legal, informational and institutional barriers to voice may also weaken the public's voice. Urban services which lend themselves to differentiation will fall into this cell, e.g., low income housing, and health clinics in poor areas. Between exit and voice, for the weak public in this cell, exit is the more efficient option though voice may play a supplementary role when policy-induced, informational and institutional barriers are eliminated.

Finally, Cell 4 refers to some of the quasi public and private services that governments might provide under public auspices for a variety of reasons. Here, services are characterized by low to moderate economies of scale so that potentially several units could produce them in a given

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<sup>13</sup> Note that scope for exit increases as one moves down vertically from Cell 1 to Cell 3.

geographical area. As a result, the potential for the public to exit is high when faced with performance deterioration. The relative importance of these services to the public is high thus causing their "product involvement" to be high. This, coupled with the fact that services can be differentiated for the benefit of the public with high income, education, etc., may facilitate the use of voice by the latter. These services may often be the same as those in Cell 3, but differentiated for the higher income groups who normally can exert a strong voice. High quality schools, hospitals, and air transport are examples.

Some of the barriers and characteristics discussed above are natural whereas others are policy induced or political in nature. Economies of scale, spatial barriers, the relative importance of services, and infeasibility of product differentiation are natural factors. Some of the policy-induced factors may originate in political discrimination or denial of rights, e.g., low income or education and some legal barriers. In general, political barriers are reflected in policy-induced factors. Legal, information and institutional barriers, and income and education characteristics (to a large extent), are thus policy-induced factors. Public services can be categorized in terms of the exit and voice potential they afford the public by reference to these barriers and characteristics.

The mix of barriers and characteristics in the four cells of Diagram III can be used to predict the degree of exit and voice potential that different public services can have. The basis of the prediction is an analysis of the services in terms of these characteristics/barriers and the extent to which they are natural or policy induced. There are, however, some

services which are similar in nature between certain cells. This is because when provided to different types of population the same service can be characterized by differing degrees of exit or voice potential. For example, primary education is found in both Cells 1 and 3 of Diagram IV. Nevertheless, from the standpoint of accountability, this seeming overlap does not imply a duplication. Contextual features and attributes of the public need not be the same even for identical services. An urban primary school, unlike a rural school, may leave an exit option for the public. If the relative importance of this service to a segment of the public is high (product involvement), voice may be resorted to before exit. This difference is relevant to the determination of the approach to accountability to be adopted. What distinguishes each cell is the positioning of a set of public services in the context of a unique exit-voice combination.

#### IV. IMPROVING ACCOUNTABILITY: A MENU OF OPTIONS.

What options are available to improve public accountability for the services in the four cells discussed above? This question can best be answered by viewing the features of each service against the constraints and opportunities for exit and voice being faced by the relevant publics. Options here refer to alternative remedies or solutions to the problem of accountability. Given the diversity in the characteristics of services and their publics, a menu approach is clearly superior to an approach that promotes a single or standardized solution.

Some implications for improving public service accountability are self evident in Diagram III. First, the accountability problem appears to be

most severe in Cell 1 where the potential for both exit and voice are low. Second, the search for improved accountability as one moves down to Cell 3 should focus more on exit (for example, private or competitive delivery) than on voice. To improve accountability in Cell 2, on the other hand, the thrust should be on voice rather than on exit. The greatest need for improving accountability is in these three cells with Cell 1 and 3 deserving priority attention. Third, the search process should first explore the scope for eliminating policy induced barriers and characteristics as a means to improve accountability. Natural barriers or features are more difficult to deal with. Hence the payoff from the latter will be smaller and the time taken to achieve improvements will be longer.

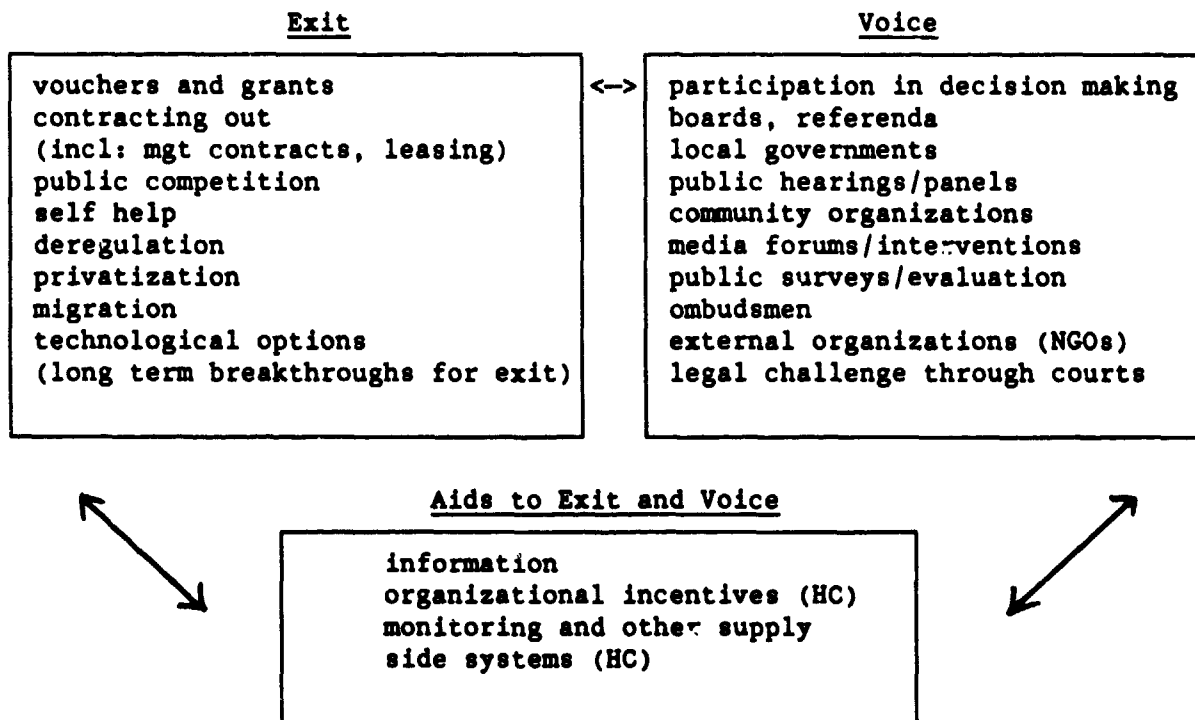
A suggestive menu of options for improving accountability through the use of exit and voice mechanisms is offered in Diagram V. The specific choices to be made will depend on the exit-voice potential combination that exists in a given context. To illustrate, the public in Cell 1 whose exit and voice potential is low, faces natural exit barriers whereas most of their voice barriers are policy-induced. Accountability can be achieved here not through exit, but through the use of voice aided by external agents (e.g., NGOs or public evaluation). For the public in Cell 2 who have strong voice, mechanisms such as public hearings, and participation in decision bodies can help improve accountability. This group may well deploy voice mechanisms on their own rather than depend on external support or initiative. Those in Cell 3 who are weaker in voice can explore exit mechanisms such as vouchers and contracting out.

Diagram V shows that exit/voice mechanisms do not influence

accountability in isolation. The proposition is that exit, voice, and HC determine accountability in an interactive mode. This is important because the test of the impact of these mechanisms lies in the behavior of the public agencies involved, though the case for the use of exit and voice to improve accountability is theoretically persuasive. Some have argued that while exit might cause private providers to be more efficient, a competing public agency might revert to the "quiet life" as it faces less demand pressure from the public. The crux of the matter is in the medium through which the signals from exit or voice are transmitted to service providers. The only medium that can directly pass on these signals to them is HC as the incentives that influence the behavior of service providers operate through HC. The tendency of public service providers to resort to the quiet life in the face of exit can therefore be explained in terms of a missing or inadequate HC.

DIAGRAM V

Mechanisms for Accountability



Will the use of exit and voice mechanisms result in the improvement of public accountability? A positive answer to this question will depend on two conditions. First, the use of exit and voice should be consistent with the characteristics of the services and the publics involved. An analysis of the features and barriers of public services and of the publics involved can be used to predict the potential for the use of exit and voice in specific service contexts. This analysis along with the knowledge of the extent to which the features/barriers are natural or policy induced provide a basis for the design of new mechanisms for public accountability and improved service performance. The following propositions specify the conditions under which accountability will be improved through the use of exit and voice.

- \* When a public service is characterized by limited exit potential and by a public with a low voice potential, accountability can be strengthened through the use of voice. External agents may aid the public in the use of voice.
- \* When a service offers low exit potential, but the public has voice potential, accountability can be strengthened through the use of voice mechanisms.
- \* When a service is characterized by exit potential, and the public has low voice potential, accountability can be strengthened through the use of exit.
- \* When a service is characterized by "product involvement" and offers potential for both exit and voice, accountability can be

strengthened through a combination of exit and voice mechanisms.

Second, exit and voice should cause the behavior of the public service provider to change. Since HC is the instrument for achieving behavioral changes in the service provider, the condition to be met is that its monitoring and incentive systems are adapted in response to exit and voice (see Diagram V). This is important because if HC has not been adapted, the public service provider's behavior is unlikely to be affected and exit and voice would not have had their desired impact on accountability. With the use of exit, for example, some segments of the public may benefit by moving to private providers. The public service provider may still remain as inefficient and ineffective as before if he does not get the right signals through an adapted HC. A measure of the adaptation is the extent to which monitoring by the provider spans efficiency, access and quality instead of being limited to inputs and compliance with internal rules. When such monitoring is reinforced by appropriate incentives to the provider, HC can be said to have adapted to exit and voice. If an adaptive response does not follow, exit and voice mechanisms may be further modified so as to give stronger signals to the provider. When mutual consistency between HC, exit and voice is achieved, the second condition for improving public accountability is satisfied.

We shall now examine the relevance of the exit and voice mechanisms of Diagram V for improving the accountability of services that fall under the different cells of Diagram III. Though they are important, less attention is paid here to the role of HC mechanisms (monitoring, incentives, etc.) mainly because there is an extensive literature on the subject (Heald



89; Herzlinger 79; Ramanathan 82).

Low Exit - Weak Voice

Since both exit and voice are difficult or too costly for the public in Cell 1, these services pose the most severe challenge to those who design accountability systems. When there are severe constraints on exit and voice, the traditional approach of improving accountability through better HC will have serious limitations, chiefly because the principal-agent problem referred to in an earlier section cannot be satisfactorily resolved in a non-competitive setting with multiple principals who have conflicting goals or preferences. The answer therefore lies in searching for ways to expand the exit and voice options, and integrating them with appropriate HC mechanisms.

Given the constraints on exit, however, the focus of accountability in Cell 1 has to be on voice. The exercise of voice is not only costly for the poor in terms of time and effort, but also more risky than exit as the outcomes of voice are less certain. The poor are unlikely, therefore, to readily invest in the use of voice. Given the high costs of voice facing them, the endeavor should be to search for voice surrogates. These are external agents who mobilize or organize the local public in order to demand and monitor better service performance. Non-governmental organizations (NGOs) are well known for playing this role. In some cases, they may also act as service providers. Their voice augmenting role tends to reduce the cost of voice to the local public who are generally poor and illiterate. Under monopoly conditions involving the poor, this form of cost internalization by an external agency can tilt the balance in favor of the use

of voice by the public. In health services, population control, and education, NGOs have played this role admirably in many developing countries (Paul 87; Esman and Uphoff 84). The alternative of a local community organizing itself to exert voice is also feasible<sup>14</sup>. The cost of voice in this case has to be borne fully by the community, a burden that many poor groups are unable to bear. In both cases, the incentive within the organizations to ensure accountability is aided by a sense of professionalism and commitment rather than by financial rewards.

Dissemination of information about services can aid the public in demanding greater accountability from service providers. More systematic pressure can be exerted through a periodic public monitoring and evaluation of the relevant public services. This can be done under public or private auspices. An expert group, for example, can be commissioned to poll the beneficiaries or gather data from them as well as the service providers for analysis and comparison across locations and over time. Compared to the direct use of voice, this is less demanding and less costly for the public. Again, this is a surrogate for voice through external intervention and is designed to promote greater accountability. Its limitation is that such evaluation invariably calls for public resources. Public surveys have been used extensively in Australia, France, Canada and the Netherlands as a usable means of feedback on tax administration (OECD 87). Canada, for example, gathers feedback on taxation from clients on a continuing basis. In this context, transparency of the methods and data used and care in the dissemination and use of findings assume special importance.

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<sup>14</sup>. Since the 1960s, many experiments in the use of voice have been attempted in the developing world with a special focus on the poor.

Complaints procedures and the institutional mechanism of the "ombudsman" are ways of providing voice to the people when there is no need or incentive for collective action. Here the attempt is to let individuals make known their problems to designated authorities for redressal. "Hotlines" can be established to help the public respond fast to unsatisfactory services or decisions by public agencies. A review of international evidence in this area shows that these mechanisms are in place in many countries, but that their utilization and impact vary widely. An important finding is that in poor societies, it is the elites who tend to use these devices more effectively. In Tanzania where the ombudsman did not evoke any response from villagers, a special effort was made to reach out by adopting a mobile approach, but with limited results (Eaves 90).

Though spatial barriers are the binding constraint on exit, it is possible that new technologies for service delivery can be used to augment the scope for exit. For example, under certain conditions, mobile courts, schools and hospitals can cross spatial barriers and offer more options to the public in the fields of criminal justice, education, and health.<sup>15</sup> As Hirschman has noted, there is a risk that easier exit may not necessarily eliminate the performance deterioration in the local public school or clinic. The fact remains, however, that technology can be a source of exit expansion under certain conditions and may cause overall accountability to improve.

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<sup>15</sup> A mobile service assumes that road transport is available. For example, even if a village has only one clinic or one doctor, another doctor may also visit and offer services to the people through the use of a van equipped with supplies.

Low Exit - Strong Voice

In view of the dominance of scale economies, the scope for improving accountability through the exit option is limited in this case. Supplementary generation of electricity by agents other than an existing monopoly can be thought of, for example, as a means of increasing competition in the utility field. But the impact of such measures remains relatively insignificant. The improvement of accountability must therefore be sought in devising creative ways to use voice.

Since strong voice characterizes this cell, an important option to explore is the participation of the public's representatives in the decision making bodies of service providers. For example, users' representatives can be made members of the boards of directors or committees of these organizations. Where appropriate, users may hold stocks of utilities so that they have a stake in their management and performance. In most developing countries, such use of voice or "public participation" is conspicuous by its absence. Irrigation projects, for example, are typically owned by governments. Yet, beneficiary farmers could be made joint investors, or responsible for management and maintenance, thereby creating a strong incentive for them to demand and facilitate good performance.

In developed countries, public participation in the regulatory process is an established practice. In the U.S., many regulatory agencies have a statutory duty to provide a forum for disputes arising in the course of the agency's rule making, or between those regulated and those affected by the actions of the industry concerned. Since public participation in this process

was limited relative to that of the regulated industries, intervenor funding mechanisms have been created in some cases to deal with this imbalance. Thus the California Public Utilities Commission has established a mechanism for after - the - fact funding to groups and individuals who have a financial hardship and who have made unique contributions to a decision adopted by the Commission. Another example of public involvement is in "negotiated rule making" that brings together representatives of an agency and the relevant interest groups to negotiate the text of a proposed rule. Regulatory negotiation has been used by the Environmental Protection Agency and other departments of the U.S. Government.

Where direct participation of users in decision making is difficult or inappropriate, it may be possible to consult them on important issues or to afford them opportunities to express their views on key decisions directly affecting them. Public hearings on the revision of rates in utilities is a good example of this approach. Advisory panels of a standing nature are another institutional mechanism. These devices can be set up by service providers or through regulatory agencies which are in any case necessary given the monopolistic nature of the activities involved. Since large scale organizations are typical of the services in Cell 2, any direct or indirect voice mechanism will act as a useful countervailing force against the potential collusion implied in the multiple principal-agent relations alluded to earlier.

Finally, public evaluation of the type discussed under Cell 1 and provision for legal redress of complaints can (e.g., hotlines, ombudsman, etc.) play a positive role here. The dissemination of comparative performance

data, including the publication of performance indicators on costs, access and quality, etc., can be expected to sensitize users to demand better service and thus to create further pressure for accountability.

#### High Exit - Weak Voice

Since exit is relatively less costly than voice for the set of services in Cell 3, the basic thrust of accountability improvement here should be on expanding the scope for exit.

Deregulation of services is an obvious option to consider since there is usually space for both public and private service providers to coexist and compete. For example, deregulatory measures in the education sector may induce the establishment of private schools along side public schools. Monopolies granted to trade agencies, when abolished, will encourage private traders also to enter the field. Since the public involved is poor(weak voice), the public function of regulation and possibly subsidization is likely continue. One option is to make grants to the private providers so as to minimize any adverse economic impact of deregulation on the poor. Grants -in-aid to NGOs have been used in both health and education sectors to achieve this objective. Food stamps or ration cards can be used for the same purpose in the area of essential goods distribution.

If for some reason, certain services require close government supervision, contracting them out to multiple private providers can be another option. This approach would permit careful monitoring and quality control while affording increased scope for exit to the public. Municipal services of

various kinds (garbage disposal, road maintenance, tax or fee collection, etc.) have been contracted out in many developed countries. An important way in which this mechanism impacts accountability and performance is through its "contestability effect".

A more direct impact on accountability can be made through the use of vouchers. People who deserve special support for income or other reasons can now receive subsidies for certain services while choosing the service providers that meet their needs most efficiently. The administration of vouchers could be more cumbersome than that of grants to the service providers. On the other hand, vouchers are a superior mode for the exercise of exit in comparison to the grant system. In several European countries, housing vouchers have helped improve living conditions and reduced excessive rent burdens by providing low-income renters an option to exit substandard public housing. Chile successfully replaced housing subsidies through low interest rates with the more direct subsidized method of a voucher program. Under this system, beneficiaries pay for the value of a specified house with their own savings, the voucher and a credit obtained from commercial banks at market interest rates. Initially vouchers did not work well because there was no private supply of very low cost housing and because the commercial banks were not interested in financing low income earners. Eventually, the construction industry responded as increased financing was provided by the State Bank and the Ministry of Housing. The private sector has now become so active and specialized in low cost housing that per unit costs have dropped.

The voucher system works best under certain conditions:

- \* Individuals' preferences for a service differ significantly, and the differences are legitimate.
- \* People are motivated to shop aggressively for the service.
- \* Individuals are well informed about market conditions, including the cost and quantity of the service and where it can be obtained.
- \* Many suppliers of the service are already in competition, or find it a relatively easy field to enter.
- \* The quality of the service is easily determined by the user.
- \* The service is relatively inexpensive and is purchased frequently, so the user learns by experience (Allen 89).

#### High Exit - Strong Voice

This is the simplest case of all since services in this cell rank high on both exit and voice. To the extent that some of these are private services, the options to follow are fairly self evident.

Privatization is clearly the first option to explore. When the potential for exit and voice are both high, market competition can be expected to ensure accountability. Where quasi public goods are involved, governments



may continue to perform a regulatory role (e.g., standard setting, quality control, etc.). For example, city transport may be left to competing private transport operators, but under the watchful eye of a regulatory body, advisory councils involving the public, etc.

Where the private sector is not adequately developed, there may be a case for the public sector to continue to play a service provider role. Instead of outright privatization, public-private competition may then be encouraged. For example, private banks may be permitted to compete with public sector banks. Both public and privately owned airlines may coexist.

Both privatization and public-private competition can be expected to ensure accountability through the exit option. As Hirschman points out, however, services which entail continuing relations between the public and the providers face a unique problem. The public are unlikely to exit without first attempting to use their voice to improve performance. This need not pose any difficulty in Cell 4 as the public involved are characterized by strong voice.

Hierarchical control within public agencies and the exit and voice options discussed above should be mutually reinforcing. For example, the internal incentives and control systems and practices of service providers(HC) should be congruent with what is being attempted on the exit and voice fronts. If not, they will work at cross purposes and weaken public accountability. If service providers do not have the incentive to improve quality as indicated by the feedback from a public evaluation or a panel, accountability and performance will not improve. The commercial nature of some services

(utilities, public enterprises with priced services, etc.) will make it easier to use financial and other related incentives to motivate the employees of the service providers. The primary task here is to ensure that such incentive and control systems are consistent with the requirements of accountability to the public.

#### V. THE PARADOX OF CAPTURE

A common feature of the two right hand cells in Diagram III is that the publics involved command "strong voice." This means that all or some of the beneficiaries of the services belong to the better off and more articulate sections of the population. The options to improve accountability analyzed in Section IV highlight a variety of ways in which the voice mechanism could be used for this purpose. Furthermore, services in the lower right hand cell could be made to perform better through the exit option. One would expect to see in developing countries many examples of the use of voice and exit in improving the services depicted in the different cells. Yet the reality is that such examples are few and far between. If voice is not being used to improve public service accountability in Cells 2 and 4, and exit is not being resorted to in Cells 3 and 4, it is reasonable to conclude that service performance will remain less than optimal. What accounts for this paradox?

A closer look at this paradox shows, however, that it can indeed be explained to a large extent by reference to a set of factors that exist in the public sectors of many developing countries. It is reasonable to hypothesize that the interaction among these factors, as detailed below, is

the primary explanation of the paradox.

(1) The population with a strong voice who have an interest in the services in the right hand cells of Diagram III includes politicians, bureaucrats and other influential persons who happen to play an active role in the management and control of the same services. They need not be large in number as long as their influence is considerable and their networks strong. They are members of both groups, beneficiaries and service providers, and are mutually reinforcing.

(2) As a group, they have a strong disincentive to use exit and voice, and are inclined to prevent others from using these options. Exit which implies the existence of competition can disrupt the "quiet life" of service providers who are part of or linked to this interest group. Voice entails a risk for the users in so far as its outcomes are uncertain. In fact, voice may well force the elite group to share the benefits of a service with the rest of the public. It is in the interest of the group, therefore, to seek alternative ways to maximize its share of the benefits.

(3) The group referred to above is relatively small and well organized in contrast to the larger public of which they are a part. It is easier for them to engage in effective collective action than for the public at large (Olsen 65). Their strong voice, their joint status as beneficiaries and controllers of services, and their membership of a compact and organized sub-group seem to give them the capability, opportunity and a strong incentive to capture a disproportionate share of the services (for themselves) and possibly also to benefit others closely linked to them. It is almost as if

they are well positioned to appropriate these services with much less effort or cost than will be the case if they had to resort to exit or voice. The paradox that is evident in many countries is therefore more apparent than real.

Examples of the paradox of capture abound in developing countries. Governments often give preferential allocations and quotas of scarce services (including goods) to politicians, bureaucrats and business. Telephones, housing, permits of various types, etc., illustrate the point.

\* In one country, housing development boards(public agencies) have a priority quota for civil servants that limits the supply available to the public at large.

\* In another case, all higher level civil servants can get one telephone connection( a highly scarce service) on a priority basis upon retirement.

\* An electricity board( state owned enterprise) provides electricity free to all its employees while the public faces power cuts and rationing.

Sometimes, informal arrangements and contacts are used to get allocations of scarce items. Thus queue jumping tends to be widespread, but without rousing any public outcry largely because of the lack of transparency of procedures (e.g., admission to quality schools, hospitals or in the allocation of urban land). If, through such devices, influential segments of

the public are able to capture the public services they require, there is no incentive for them to resort to the more costly exit and voice options. Those responsible for the actual service delivery, as shown above, may also collude in this process as exit would be a threat to their quiet life. This then is the explanation for the paradox of scarce and often poorly performing public services coexisting with the reluctance of the influential publics involved to make use of the available exit and voice options to improve performance for all.

In many developing countries, the phenomenon of capture is a dominant barrier to the increased use of exit and voice and hence to the improvement of accountability. Capture can now be added to the three other barriers, listed in Section I, namely, governments' monopoly of public services, the public's limited capacity and willingness to demand service, and the difficulties in measuring and quantifying the outputs of services.

There are three important implications of capture for public service accountability. First, capture can be considered a case of pseudo-exit. Since the elites have a way out of the consequences of the poor performance of public services, there are no internal incentives for the agencies involved to improve their accountability. Genuine principal-agent relations do not exist in this setting. Collusion between the two will be pervasive under these conditions. Furthermore, voice of the public at large is usually unequal to the task of augmenting public service accountability.

Second, the longer the paradox of capture persists, the greater the difficulties in dismantling it. Over the long haul, the capture

phenomenon may cause performance for the rest of the public to decline so much that it sets in motion strong voice mechanisms (mass protests, political upheavals). This may cause major reforms of the prevailing regime to be undertaken leading to a distinct improvement of accountability. The implication here is that no perceptible improvement of performance needs to be expected unless and until a severe crisis erupts (Olsen 85). Increasing the supply of services is the only other means to weaken the incentives for capture.

Third, continued public dissemination of information on public service performance and the creation of greater public awareness of these issues on a continuing basis can be used interim to influence accountability if the crisis scenario does not materialize. In the final analysis, capture can be countered only by the voice of the rest of the public. There is some evidence that this approach can indeed lead to improved public sector performance and accountability. For example, the publication of comparative data on infant mortality is said to have put pressure on some governments (obviously poor performers) to expand and improve their public health programs. The Indian State of Tamil Nadu was ranked second from the bottom (compared to other states) in terms of nutrition indicators some years ago. The shock of this revelation is said to have triggered a new and successful nutrition program in this state which today has improved its position to the medium range. Comparative studies of public services and the wide dissemination of their findings can, thus, help mobilize public opinion and initiate public action. This approach promises to be a useful surrogate for competition in the public sector.

## VI. CONCLUSION

The basic argument of this paper is that public accountability is an important determinant of public service performance and that its impact on performance can be augmented by moving away from an exclusive reliance on HC mechanisms such as monitoring and use of organizational incentives to a system that uses exit or voice mechanisms in conjunction with HC. Whether the public will resort to exit or voice will depend on the relative costs associated with these options and the expected value to them of the performance improvement resulting from their use in a specific context. The costs and returns associated with exit and voice will in turn be influenced by the degree of market failure underlying the services in question.

Exit and voice can be expected to impact accountability both directly and indirectly. The contestability effect of some of the exit and voice mechanisms can have a direct effect on the behavior of service providers. Through their impact on HC mechanisms, they can also have an indirect and positive effect on the same set of agents by keeping them "in line". The nature and extent of this impact will depend on the relative bargaining power of the multiple stakeholders vis-a-vis the agents involved.

The factors that influence the potential for exit and voice in the context of different public services are several. The key characteristics on the exit side are the presence of economies of scale (monopoly), legal barriers to entry, and spatial barriers to exit. Voice potential is determined by legal, informational and institutional barriers, the public's level of income and education (and hence political power), the relative

importance of the service to the public, and service differentiability. Some of these are natural barriers and characteristics whereas others are artificial or policy induced. Economies of scale, spatial barriers, the relative importance of services, and differentiability are natural factors. Legal, informational and institutional barriers, and income and education characteristics (to a large extent), are policy induced factors. Public services can be categorized in terms of the exit and voice potential they afford the public by reference to these barriers and characteristics. An analysis of the features and barriers of public services and of the publics involved can be used to predict the potential for the use of exit and voice in specific service contexts. This analysis along with the knowledge of the extent to which such features/barriers are natural or policy induced provide a basis for the design of new mechanisms for public accountability and improved service performance.

A useful approach to the improvement of accountability is to devise ways and means to overcome these barriers or to minimize the adverse effects of these characteristics. Clearly, natural factors are more difficult to overcome than those induced by policy. Exit and voice potential can therefore be more easily realized by first eliminating the policy induced barriers. Minimizing the adverse effects of natural barriers will call for more time, effort and resources. Judged by these criteria, services characterized by weak voice and low exit will be the most difficult to deal with. Natural factors play a dominant role in causing this combination of exit and voice. The implications of this analysis can be seen in the menu of options for improving accountability for services that fall under the different combinations of exit and voice potential discussed in Section IV. A



menu of options that fits the problems of the different exit-voice combinations is a more useful approach to the improvement of public service accountability than one that offers a standard answer for all situations. The set of propositions summarized below can be a guide to the choice of options:

1. When a public service is characterized by limited exit and voice potential for a population that comprises the poor (often rural or isolated groups of people), improved accountability is achieved more effectively through the use of voice than of exit.
2. When there is limited exit potential for the public in the context of a service that cannot be differentiated and the public or a segment of it has strong voice, voice is the primary means to improve public accountability.
3. Voice is strengthened primarily through the medium of external intervention under the conditions described in (1) above, whereas the use of voice occurs through the public's own initiative under the conditions described in (2) above.
4. When a service offers exit potential, but the public has low voice potential, exit is a more effective means to augment accountability than voice.
5. When a service is characterized by "product involvement" and offers potential for both exit and voice, accountability is augmented through a combination of exit and voice mechanisms.

The phenomenon of capture is an important barrier to the improvement of accountability in developing countries. Capture, along with government monopoly of many public services, the limited capacity of the public to demand and monitor good performance, and the problems in measuring and quantifying the benefits of services, make the improvement of public service accountability an especially complex and difficult undertaking.

What can be done to enhance public service accountability in developing countries in the medium term? First of all, even when the phenomenon of capture or other problems severely limit the scope for significant reform, there is a case for mobilizing public opinion for change through the dissemination of information on the performance of public services. Public surveys of client satisfaction, public evaluations of service providers, comparative analysis of performance indicators within countries and across countries can be used to lay the foundation for a ground swell in favor of reform. The Tamil Nadu example of the origin of a nutrition program referred to earlier illustrates how influential information could be in changing public opinion and policy makers' perspectives. This is certainly an area in which the World Bank and other international donors can play a catalytic role.

Second, there is a need to correct the imbalance that has developed among the stakeholders of public services. In many developing countries, the mandates and behavior of service providers are dominated by their own preferences or the priorities of their supervisors and influential elite groups. The weakest stakeholder is the public or its segments who do not have an adequate "voice" for the reasons discussed in this paper. It is

important to examine the kinds of exit and voice mechanisms that can be mustered to correct this imbalance. Since the costs and benefits of the different options tend to vary a great deal, there is merit in assessing the experiences of different countries in this regard . Innovations in the design of improved accountability systems must be informed by the international evidence on the ground.

Third, the HC mechanisms being used by service providers (monitoring and incentive systems) must be checked for their compatibility with the expectations of the stakeholders and the trade offs that have been worked out between them. The spectrum of performance dimensions (inputs, access and quality) discussed in the paper provides a useful basis for this check. If, for example, quality or access attributes are missing, and incentives are not in place to motivate service providers to pursue these dimensions of performance, the corrective action required is to deploy exit or voice mechanisms or a combination of the two so as to get the service providers to be more responsive or accountable to the stakeholders. In developing countries where poverty reduction is a major goal, correcting the imbalance among stakeholders in favor of the poor and towards access and quality as performance dimensions merit special attention.

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